

Message Text

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CEA-02 CIAE-00 COME-00 EA-11 FRB-02 INR-10 IO-12

NEA-10 NSAE-00 RSC-01 OPIC-12 TRSE-00 CIEP-02 LAB-06

SIL-01 OMB-01 RSR-01 /133 W
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R 191344 Z MAY 73
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 1320
INFO AMEMBASSY PARIS
AMEMBASSY THE HAGUE
AMEMBASSY BONN
USMISSION EC BRUSSELS
USMISSION OECD PARIS

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E. O. 11652: N/ A

TAGS: ETRD, UK, FR, CW, EEC, OECD, NL

SUBJECT: ANTITRUST CASE US VS. IBM

REF: STATE 069913, LONDON L-871 OF JUNE 9, 1972

1. CONTENTS OF THIS CABLE ARE FOR PUBLIC RECORD IN U. S.
BUT WITHOUT ATTRIBUTION TO EMBASSY. NUMBERING OF PARA-
GRAPHS IN THIS CABLE CORRESPOND TO NUMBERING IN REFTEL.

2. IBM(UK) LTD. IS WHOLLY OWNED BY IBM UNITED KINGDOM
HOLDINGS LTD. A SUBSIDIARY OF IBM WORLD TRADE CORPOR-
ATION WHOSE CHAIRMAN J. MAISONROUGE IS ALSO CHAIRMAN
OF IBM (UK). THE OPERATIONAL STRUCTURE OF IBM CHANGED
IN 1972 WITH IBM (EUROPE) (WHICH HAD BEEN IN EXISTE GANJ15 YEARS) ASS
JI OPERATIONAL CONTROL OF IBM (UK).
THIS CHANGE HAS NOT AFFECTED THE OWNERSHIP OF IBM (UK).
IBM (UK) HAS ITS HOME OFFICE AT 389 CHISWICK HIGH ROAD,
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LONDON W4. DIRECTORS ARE J G MAISONROUGE, E R NIXON (MANAGING), SIR EDWARD BULLARD, RT. HON. VISCOUNT DE L' ISLE, E. STAFFORD HOWARD, RT. HON. LORD LUKE, ALAN RUSSELL, G. VAN DER WOUDE, M. A. MEJ W FAIRCLOUGH AND A K WATSON. FIRM HAS TWO PRINCIPAL DIVISIONS: DATA PROCESSING AND OFFICE PRODUCTS. DATA PROCESSING DIVISION HAS NINE SERVICE BUREAUS IN AS MANY MAJOR BRITISH CITIES. FIRM HAS 21 BRANCHES (8 IN LONDON) IN ENGLAND, SCOTLAND AND NORTHERN IRELAND AND TWO MANUFACTURING PLANTS AT GREENOCK, SCOTLAND AND HAVANT, HAMPSHIRE. RESEARCH FACILITY IS IBM UNITED KINGDOM LABORATORIES LTD., HURSLEY HOUSE, HURSLEY PARK, WINCHESTER, HAMPSHIRE. FIRM ESTABLISHED IN UK IN 1951. TOTAL EMPLOYEES NOW APPROXIMATELY 12,500.

3. THE PRINCIPAL COMPETITORS FOR IBM (UK) ARE INDICATED IN THIS LISTING OF 1969 UK MARKET SHARES:

UK FIRMS	1969 VALUE MILLIONS DOLLARS	MARKET SHARE PERCENT
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ICL	176.5	49.4
FERRANTI	3.3	.9
GEC	6.2	1.7
COMPUTER TECHNOLOGY	0.6	.2
DIGICO	0.3	.1
US FIRMS		
IBM	99.0	27.7
NCR	11.0	3.1
UNIVAC	10.3	2.9
BURROUGHS	10.8	3.0
HONEYWELL	28.2	7.9
CDC	5.4	1.5
DEC	1.9	.5
OTHER	2.1	.6
THIRD COUNTRY	1.4	.4
TOTAL	357.0	100.0

IN 1972, ICL UK SALES OF 385.6 MILLION DOLLARS CONSTITUTED 41 PERCENT OF THE DOMESTIC MARKET. THE IBM (UK) DOMESTIC MARKET SHARE IS ESTIMATED AT 36 PERCENT (338 MILLION DOLLARS). IN TERMS OF TOTAL SALES (INCLUDING EXPORTS), IBM (UK) IS LARGER THAN ICL. HONEYWELL AND UNIVAC TOO ARE KNOWN TO HAVE INCREASED THEIR UK LIMITED OFFICIAL USE

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MARKET SHARES OVER THE 1969 FIGURES SHOWN ABOVE. FERRANTI AND GEC ARE PRINCIPALLY INVOLVED IN PROCESS CONTROL COMPUTERS AND DO NOT COMPETE DIRECTLY WITH IBM TO THE EXTENT THAT ICL DOES.

4. UK IMPORT TARIFF FOR US ORIGIN COMPUTERS AND UNITS THEREOF IS 14 PERCENT, FOR MOST PERIPHERALS 7.5 PER-

CENT, FOR POWER SUPPLIES 10 PERCENT. UK IMPORT TARIFF
FOR EC ORIGIN (WHICH INCLUDES US FIRMS MANUFACTURING
THERE) COMPUTERS AND UNITS THEREOF IS 11.2 PERCENT, FOR
MOST PERIPHERALS 6 PERCENT AND POWER SUPPLIES 8 PERCENT
(ALL EC FIGURES INCLUDE THE INITIAL 20 PERCENT REDUC-
TION IN DUTIES ON UK IMPORTS FROM EC).
IMPORT AND EXPORT FIGURES FOR 1970-72 ARE GIVEN BELOW.
EACH FIGURE REPRESENTS A SUMMATION OF THE U. N. STANDARD
INTERNATIONAL TRADE CLASSIFICATION (REVISED) HEADINGS
714.2, 714.3 AND 714.92. FIGURES FOR COMPUTER AND
5/17/1975
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R 191359 Z MAY 73
FM AMEMBASSY LONDON
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PERIPHERALS FOR 1968-69 ARE HIDDEN IN THE MUCH LARGER
SITC(R) HEADING 71 (" MACHINES, OTHER THAN ELECTRIC"),
AND ARE THUS NOT COMPARABLE.
ALL DOLLAR FIGURES ARE IN MILLIONS (POUNDS \$2.50):
U. K. IMPORTS: MARKET SHARE (PERCENT)

	1970	1971	1972
U. S.	53.4	45.0	35.5

W. GERMANY	12.4	17.0	23.0
FRANCE	9.7	13.0	16.9
NETHERLANDS	3.0	3.0	3.4
ITALY	6.8	7.1	3.7
JAPAN	2.6	3.4	4.2
SWEDEN	4.1	3.5	2.6
OTHER	8.0	8.0	10.0
TOTAL	100.0	100.0	100.0

TOTAL DOLLAR VALUE:

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U. S. DOLLARS: 515.6 494.1 521.3

U. K. IMPORTS FROM THE SEVEN COUNTRIES LISTED ABOVE
COMPRISE 90 PERCENT OR MORE OF ALL UK IMPORTS. HOWEVER,
UK EXPORTS TO THE MOST IMPORTANT SEVEN RECIPIENT
NATIONS CONSTITUTE ONLY 50 - 60 PERCENT OF ALL UK
EXPORTS. THE MAJORITY OF RECIPIENT NATIONS NOT LISTED
BELOW UNDER " EXPORTS" ARE COMMONWEALTH AND EX- COMMON-
WEALTH NATIONS, CHIEFLY SOUTH AFRICA, AND AUSTRALIA.

U. K. EXPORTS

	MARKET SHARE	MARKET SHARE	MARKET SHARE
	1970	1971	1972
	PERCENT	PERCENT	PERCENT
U. S.	9.0	10.0	7.6
W. GERMANY	14.0	15.0	19.0
FRANCE	13.0	15.0	17.0
EIRE	4.0	3.0	2.3
JAPAN	4.0	3.0	2.5
CANADA	2.5	2.0	2.2
ITALY	5.5	6.6	6.0
OTHER	48.0	45.0	43.0
TOTAL	100.0	100.0	100.0

TOTAL DOLLAR VALUE:

U. S. DOLLARS: 333.4 393.3 450.5

5. IT IS THE DECLARED POLICY OF THE BRITISH GOVERNMENT
TO PROCURE, FOR CENTRAL GOVERNMENT USE, BY SINGLE
TENDER FROM INTERNATIONAL COMPUTERS LTD., ALL COMPUTERS
OF ATLAS SIZE OR LARGER. THIS POLICY IS DESIGNED TO
MAINTAIN AND PROMOTE A HEALTHY DOMESTIC UK COMPUTER
INDUSTRY. SINGLE TENDERING ALSO APPLIES WHERE IT IS
DICTATED BY CONSIDERATIONS OF COMPATABILITY OR WHERE
THE PURCHASE WILL CLEARLY LEAD TO AN ATLAS SIZED MACHINE
LATER. ALL SUCH SINGLE TENDERING IS SUBJECT TO THE
CRITERIA THAT PRICE, CAPABILITY AND DELIVERY TERMS
BE EQUAL TO THE CAPABILITIES OF OTHER FIRMS. THE GOVERN-
MENT " ENCOURAGES" THE APPLICATION OF THIS POLICY BY
LOCAL GOVERNMENTS AND DECENTRALIZED AGENCIES. IN
PRACTICE, THE GOVERNMENT APPLIES THE POLICY AS RIGOR-
OUSLY AS POSSIBLE ALTHOUGH COMPETITIVE FIRMS INCLUDING
IBM, HONEYWELL, AND UNIVAC REGULARLY WIN GOVERNMENT

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IN 1969 58 PERCENT OF ICL SALES TO CENTRAL GOVERNMENT
WERE BY SINGLE TENDER, IN 1970 72 PERCENT AND IN 1971
100 PERCENT.

IN ADDITION TO THE FOREGOING, THE BRITISH GOVERNMENT
HAS PROVED A GRANT OF 35 MILLION DOLLARS TO ICL FOR THE
18 MONTH PERIOD ENDING SEPTEMBER 1973 FOR DEVELOPMENT
OF A NEW RANGE OF COMPUTERS.

MOST INFORMED OBSERVERS HERE DOUBT THAT ICL CAN CONTINUE
INDEFINITELY TO COMPETE WITH A FULL RANGE OF COMPUTERS
AGAINST AMERICAN FIRMS.

6. LOCAL REACTION TO THE ANTI- TRUST SUIT AGAINST IBM
IN THE U. S. HAS BEEN MINIMAL. THE SUNDAY TIMES OF MAY
13 HAD A FULL PAGE STORY ON AN INSIDE PAGE WHICH WAS
GENERALLY UNFAVORABLE TO IBM, BUT SUCH COVERAGE OF THE
STORY IS RARE OR UNIQUE. THERE HAS BEEN NO LEGAL ACTION
TAKEN AGAINST IBM IN THE UK FOR RESTRICTIVE BUSINESS
PRACTICES.

7. THE EMBASSY GAVE ITS OPINION OF THE LIKELY EFFECT OF
A BREAK UP OF IBM IN OUR A-871 OF JUNE 9, 1972: " ULTIM-
ATELY, THE GREATEST HOPE FOR A SUCCESSFUL EUROPEAN
COMPUTER INDUSTRY LIES IN THE SUCCESSFUL FILING OF A
MAJOR ANTI- TRUST SUIT AGAINST IBM IN THE UNITED STATES."
THIS IS A QUOTATION FROM THE BRITISH PUBLICATION, " ELEC-
TRONICS WEEKLY". UNLESS ANY BREAK UP OF IBM WERE PHASED

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NEA-10 NSAE-00 RSC-01 OPIC-12 TRSE-00 CIEP-02 LAB-06

SIL-01 OMB-01 RSR-01 SS-15 NSC-10 /158 W

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R 191359 Z MAY 73

FM AMEMBASSY LONDON
TO SECSTATE WASHDC 1322
INFO AMEMBASSY PARIS
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OVER A PERIOD OF YEARS, IT IS HARD TO IMAGINE HOW THE COMPANY COULD MAINTAIN ITS CAPACITY TO SERVICE EXISTING INSTALLATIONS OR CONTINUE ITS INTERDEPENDENT MANUFACTURING. PERHAPS THE MOST IMPORTANT IMMEDIATE EFFECT WOULD BE LOSS OF CREDIBILITY IN IBM AS A SUPPLIER AND SERVICE AGENT, AND A STRENGTHENING OF THE COMPETITIVENESS OF ICL WHICH IS THE PRINCIPAL COMPETITOR OF IBM IN THE UK.

IF IBM (UK) WERE ASSIGNED TO ONE INDEPENDENT COMPANY, IT WOULD NOT, IN OUR OPINION, BE A VIABLE CONCERN. WHEN IBM (UK) RECENTLY TRIED TO MAKE THE CASE TO THE BRITISH GOVERNMENT THAT THEIR 370/165 WAS FULLY AS BRITISH AS A COMPETING ICL MACHINE, IBM (UK) SPOKESMEN SAID THAT BRITISH PARTS AND LABOR TOTALLED AS MUCH AS 50 PERCENT OF THE VALUE OF THE MACHINE. THE OTHER 50 PERCENT COMES ALMOST ENTIRELY FROM OTHER DIVISIONS OF
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IBM (EUROPE). IF IBM (UK) WERE DIVIDED AMONG TWO SUCCESSORS, THE RESULT WOULD SEEM EVEN LESS VIABLE. ON THE OTHER HAND, IF IBM (EUROPE) WERE SPLIT OFF FROM IBM (U. S.) THE EUROPEAN FIRM WOULD BE ABLE TO MAINTAIN THE ENTIRE LINE EXCEPTING ONLY THE 370/195 AND WOULD PROBABLY BE A COMPETITIVE FIRM. WE DO NOT KNOW WHETHER IT WOULD BE POSSIBLE TO BREAK IBM (EUROPE) INTO MORE THAN ONE VIABLE FIRM.

8. IN BRITAIN, COMPLAINTS OF MONOPOLISTIC PRACTICES ARE REGISTERED WITH THE MONOPOLIES COMMISSION WHICH, IF IT FIND MERIT IN THE CASE, CARRIES OUT AN INVESTIGATION AND HEARINGS, WHICH MAY RESULT IN ORDERS TO DESIST FROM SPECIFIC PRACTICES OR AN ORDER FOR DIVESTITURE.

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*** Current Handling Restrictions *** n/a

*** Current Classification *** LIMITED OFFICIAL USE

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Disposition Date: 28 MAY 2004
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Drafter: n/a
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Errors: n/a
Film Number: n/a
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OECD PARIS
PARIS
SECSTATE WASHDC
THE HAGUE

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